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'Project Recovery'

A handful of 'cowboys' leads Reagan into the biggest blunder of his presidency

The operation was called "Project Recovery," and the "cowboys" were in charge. Directed from the White House basement, members of Ronald Reagan's staff shipped arms to Iran in the same freewheeling style they used in their dealings with the Nicaraguan contras. Only a handful of need-to-know officials in the entire administration learned the full story. America's military leadership and its civilian experts on Iran were left in the dark. "I don't think any one of us has yet grasped the dimensions of what's been going on over there in the White House," said a source at the highest level of the Pentagon. "When it all comes out there are going to be calls for a major housecleaning." One of Reagan's top White House aides put it more succinctly: "This is a more serious episode than anything in his presidency." As it turned out, Project Recovery also was Ronald Reagan's biggest blunder.

NEWSWEEK has learned that the president's operatives sent $50 million to $100 million worth of weapons to Iran. They used the Central Intelligence Agency to get around normal legal restrictions on arms exports, and they went to extraordinary lengths to keep the Joint Chiefs of Staff out of the picture. With the CIA involved, raiding the arsenals turned out to be easy. "If you go to someone in the Army and whisper, 'How many TOW [missiles] have you got?' and then tell them to assemble the following number at a particular place and we'll take it from there, it works," a civilian Pentagon official who was involved in the operation told NEWSWEEK. "Everybody has 'need to know' instilled in them. And if it's done in whispers, everyone gets a little chill of vicarious gratification. Sure, they would wonder about the destination. But nobody would imagine it could be Iran."

As incredible as it may seem, most of the formal government of the United States is still trying to figure out what Reagan's cowboys were up to and how many weapons they actually sent to Iran. Much of the attention is focused on Marine Lt. Col. Oliver North, the National Security Council staffer who handles many of the president's most sensitive jobs and was the project manager on the weapons deal. NEWSWEEK learned that North spent all day last Saturday—from 7:30 a.m. until late at night—being questioned by several lawyers from the Justice Department. The topic: a blow-by-blow reconstruction of Project Recovery.

The president himself did his best to play down the scope of the Iran operation. At his news conference last week, Reagan said soothingly that the entire arms shipment "could be put in one cargo plane, and there would be plenty of room left over." But some well-placed officials have dug up a different story. They said Washington had shipped 2,008 TOW antitank missiles to Iran, along with parts for Hawk antiaircraft missiles and Phoenix air-to-air missiles and other equipment—more than enough to overload the biggest cargo plane in the U.S. fleet. The replacement cost of the TOW's alone was nearly $20 million. "So far as we can tell, as much as $50 million worth [of supplies] appears to have been sent out to Iran directly from the United States," a senior official told NEWSWEEK. "When you add in the quantities shipped from third countries, primarily Israel, [and paid for by Washington] the total could be $100 million or more."

To move all that hardware, the cowboys went far outside normal channels. The CIA carried out the operation. It opened a Swiss bank account into which Iran paid money for the purchase of American arms. The agency chartered the cargo planes that carried weapons to Teheran via Israel. The CIA actually extracted the arms from military arsenals in the United States, without the knowledge of the brass. Reagan's ad hoc intelligence operation apparently was designed to circumvent both congressional scrutiny and the objections of top administration officials. The president ordered Defense Secretary Caspar Weinberger to facilitate the arms transfers, despite Weinberger's expressed opinion that the whole idea of cozying up to Iran was "absurd." Weinberger instructed Richard Armitage, assistant secretary for international security affairs, to take charge. Armitage and some civilian aides organized the sub rosa requisitions from the supply depots in cooperation with "Field Marshal North," as he is derisively known in the Pentagon.

Weapons were withdrawn from Army arsenals in Anniston, Ala., and Texarkana, Texas, among other places. Other shipments appear to have come from U.S. military stockpiles in Italy, and perhaps in Turkey as well. Laws regulating the export of weapons may have been broken (page 32). Neither the State Department nor Congress was notified of the shipments to Teheran, and Iran never showed up as the destination on the "matériel release order" forms that are required to remove weapons from depots. Under standard covert procedures, the CIA requisitioned weapons from U.S. arsenals, listing the purpose merely as "Project Recovery."

In addition to selling Teheran TOW missiles and Hawk parts, military officials suspect that the administration supplied the Iranians with equipment they needed to get their American-made F-14 fighters into action in the war with Iraq. When the shah fell in 1979, Iran had nearly 80 F-14s, but until recently the potent warplane had never been used in its primary role as an air-defense fighter. The reason, sources said, was that Iran lacked guidance equipment on board the F-14s to control their Phoenix missiles. Just last month, however, an Iranian F-14 used a Phoenix to shoot down an Iraqi Mirage fighter. Although they can't prove it yet (and officials involved in the operation deny it), some U.S. military leaders believe that parts for the F-14 system may have reached Iran through North's pipeline.

'I worked for Cap': How the U.S. supplies actually got to their destination is still something of a mystery; certainly no U.S. Air Force planes flew to Teheran. According to early reports, matériel drawn from stockpiles overseas reached Iran in ships or planes dispatched from Israel. Shipments originating in the United States were carried on aircraft chartered by the CIA. Israeli and Pentagon officials said a role in the charter operation was played by retired Air Force Maj. Gen. Richard Secord, an occasional adviser to the contras. Secord, who has an Iranian business partner, told a NEWSWEEK reporter that any suggestion that he helped ship arms to Iran was "absolutely false." But he added: "If you asked me, was I an adviser on arms imports to Iran, that's another matter. I can't talk about that." Pressed further, Secord asked, "Do you know my resumé?" When the reporter said yes, Secord went on: "Then you know I worked for Cap Weinberger and I know a lot about Iran."

The White House stonewalled so effectively that other agencies of government had to launch investigations to find out what the president's operatives had been doing. At the Pentagon, an outraged Adm. William Crowe, chairman of the Joint Chiefs, ordered a full inquiry. Briefing congressmen, Director William Casey of the CIA and the president's national-security adviser, John Poindexter, indicated that they didn't yet know the full details. After

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hearing from Casey, Democratic Sen. Daniel Patrick Moynihan of New York said: "I can't believe what I heard—and I don't."

Reagan already had enough trouble on his hands. At his news conference last week, he insisted that his contacts with Iran did not constitute "a fiasco or a great failure of any kind. We still have those contacts . . . [and] we got our hostages back—three of them," he said. "So I think that what we did was right." Reagan called off the arms shipments, but almost no one was won over. Sen. Robert Byrd, who will soon become majority leader of the new, Democratic-controlled Senate, called the Iranian operation "incredibly clumsy and amateurish." Republican Sen. Richard Lugar said the administration ought to "bring in some big-leaguers to run things."

The White House itself seethed with backbiting and recriminations. Secretary of State George Shultz complained that he had been kept in the dark. In a television interview, Shultz hinted, none too daintily, that he was unhappy with the Iran policy and left the impression that he might resign; for his part, Reagan said at his press conference that he very much wanted the secretary to stay on. Shultz seemed mollified by the president's vote of confidence, apparently convinced that it would put him firmly atop the nation's foreign-policy apparatus. At the same time, however, he was being undercut by an increasingly powerful player at the White House: Nancy Reagan (page 30). Critics of the Iran policy howled for the heads of Poindexter and his feisty boss, chief of staff Donald Regan. White House officials were stunned when former national-security adviser Robert (Bud) McFarlane, the key go-between in the Iran operation, said that sending arms to Teheran had been "a mistake."

Among Reagan's advisers, the dispute produced some remarkably blunt public language, much of which was at variance with what the president himself was saying.

Shultz, when asked whether more arms should be sent to Iran: "Under the circumstances of Iran's war with Iraq, its pursuit of terrorism, its association with those holding our hostages, I would certainly say, as far as I'm concerned, no." Asked whether he spoke for the administration on that, Shultz replied: "No."

McFarlane on Shultz: "[The arms deal] was not kept from the secretary of state. I'm somewhat surprised at the portrayal that it was. For I told him repeatedly and often of every item that went on in this enterprise."

Regan on McFarlane (as reported by The Washington Post): "Let's not forget whose idea this was. It was Bud's idea. When you give lousy advice, you get lousy results."

Shake-up talk: Amid the bickering, there were calls for a shake-up among Reagan's top advisers. One name mentioned frequently was that of George Shultz. Officials familiar with Project Recovery charged that Shultz had indeed been fully informed on the operation. Various rumors had it that Shultz would be succeeded by Treasury Secretary James A. Baker III; that Regan might be replaced by presidential friend Paul Laxalt or former Transportation Secretary Drew Lewis or even by Baker, and that Poindexter would give way to former NSC chief Brent Scowcroft or ex-diplomat Lawrence Eagleburger.

The only man actually offering to resign was Oliver North. "All this soldier did was to carry out orders," he told one colleague. "I never did anything without the permission of my senior officer." North's mood was described as serene. He was said to have viewed the arms deal as a way to restore U.S. influence in Iran and to help end the Iran-Iraq war by shoring up moderates in Teheran who want to make peace—as well as a way to recover U.S. hostages in Lebanon. "If somebody has to take the fall, I'm willing to do it," he confided to a friend, "but I haven't done anything wrong."

There was no assurance that any heads would roll right now—if ever. The president hates to fire people, even when they deserve it. Inside and outside the administration, there was a widespread conviction that weak staff work had badly undermined Reagan. The pounding that he continued to take in the opinion polls made it clear that, on the issue of arms for Iran, the American people did not agree with Reagan—and didn't even believe him. The Iranian fiasco damaged one of the president's most important assets, his credibility, and threatened his capacity to lead effectively in the remaining two years of his term.

Who was to blame for the mess? At his news conference, Reagan said that "the responsibility for the decision and the operation is mine, and mine alone." But the president didn't seem to have a firm grasp on the complexities of his Iranian policy. When he was prepping for the news conference, some of his aides thought Reagan was noticeably shaky on the sequence of events. During the conference he insisted that no third country had played a role in the shipment of arms to Iran, despite public statements by his own advisers that Israel had been involved. Later the White House had to issue a correction. Throughout the meeting with reporters Reagan seemed querulous and unsure of himself. Some conservatives complained that he was running out of ideological steam and was backing away from tough positions, such as not bargaining with terrorists for the freedom of hostages. "He's tired," said a former aide. "This Iranian mess is part of that. He's getting older, and his soft heart got the better of his judgment."

Many other critics blamed Reagan's staff for the Iranian debacle. "I think there needs to be a very great strengthening of the level of competence in the National Security Council," said Lugar. "Look what happens when the NSC decides it can do all these kinds of things." said Democratic Sen. Patrick Leahy of Vermont. "You've got the operations in Central America, you've got the Libyan disinformation business and you've got this thing. Well, three strikes and you're out." Another respected Democrat, Sen. Sam Nunn of Georgia, said Reagan should "appoint a senior group of wise men—or wise men and women—to advise him on foreign policy and national security."

Reagan's PR men apparently counted too heavily on their ability to turn things around. Of course, they have done it before, as in the aftermath of the Reykjavik summit, when an aggressive White House "spin control" operation transformed a diplomatic flop into a public-relations triumph. "They assumed, because of Iceland, they could say anything and get away with it," charged Democratic pollster Pat Caddell. "They could sell Iceland because it was us versus the Russians, and nobody's going to side with the Russians. But this time the substance of the issue was America cozying up to the Iranians, America dealing with terrorists. What Reagan's men don't realize is that substance matters to the public."

'You made a mistake': With the notable exception of George Shultz, who spelled out his objections in a private meeting, Reagan's men couldn't find a way to tell the president he was wrong. Before the press conference, Richard Nixon, among others, called up to say that Reagan should simply admit that he made a mistake when he sent arms to Iran. But one White House aide complained: "You don't get up and say, 'You made a mistake, Mr. President. Why don't you admit it?' Nobody said that." They didn't say it because Reagan doesn't believe that he made a mistake.

Regan and Poindexter are quintessential yes men, and both of them have limited experience, especially in foreign affairs. "Wall Street is a very narrow arena," says a former NSC official, alluding to Regan's background. "So is the military." Another Reagan adviser complains that the president "doesn't have a staff that can create new ideas. It's an extremely timid staff, intellectually and politically." But the imperious Don Regan doesn't *want* fresh

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ARTHUR GRACE—NEWSWEEK

Poindexter and Regan confer; Casey (above): Amid rumors of resignation and staff backbiting, the principals tough it out

thinking from his staff. "I don't need these guys for ideas," he once said. "I've got more than enough of my own."

Some fingers were being pointed directly at Poindexter. The Navy vice admiral wrote the infamous disinformation memo. He signed off on the FBI plan to arrest alleged Soviet spy Gennady Zakharov last August in New York, and he was partly to blame for the administration's wobbly initial response to the Soviet seizure of American journalist Nicholas Daniloff. Now Poindexter and his aides were being blamed for failing to warn Reagan about the pitfalls of his Iran policy. In public, Regan continued to stand by his man, describing Poindexter as "honorable" and "brilliant." But there were reports that the chief of staff had begun to disparage the NSC director, and some former Reagan aides were hearing that Poindexter might be sacked in the next few months.

Some outsiders thought responsibility for the Iran fiasco should be more widely shared. Henry Kissinger found it "strange" that "the president is standing out there alone, and no one stands up to defend him." Kissinger argued that shaking up only the NSC staff would do no good. Another former national-security adviser, Zbigniew Brzezinski, who worked for Jimmy Carter, suggested promoting Oliver North to brigadier general. "The bureaucracy is full of people who get paid for doing nothing," said Brzezinski. "When you have a guy who gets things done, promote him." Both Brzezinski and Kissinger were in favor of taking a hard look at the top policymakers. Kissinger said that a "very careful assessment of the decision-making process" was needed if the administration was to have any hope of "realizing the opportunities of the next two years."

'They still love him': Last week some Reaganites were gloomy about the next two years. With tax reform wrapped up, Reagan's agenda for the end of his term looks uninspiring. Arms control seems to be in limbo. Budget reform lacks luster, welfare reform appears to be a nonstarter and catastrophic health insurance, proposed last week, won't send many Americans dancing through the streets. "The last two years are basically out of gas," said one of Reagan's senior advisers. His friends and foes know that Reagan can always bounce back. The Iran debacle may blow over, as the Bitburg flap did last year. The next foreign-policy challenge may break his way. Reagan may fasten onto another cause that will galvanize his supporters—reducing the budget deficit, perhaps. Above all, the president remains uniquely popular with the American people. "Maybe they think he's out of touch," says one Reagan man, "but they still love him."

Personal popularity, however, is a warm but worthless commodity when it no longer translates into political clout. The key to Reagan's success as a president is his reputation for candor, for consistency—and for winning. All three qualities were badly strained by the high-risk gamble that he took when he started to haggle with the Iranians. It is a wide-open question whether Reagan and his beleaguered staff are resilient enough, and capable enough, to overcome that defeat at a point in his presidency when the lame-duck season can begin at any time.

RUSSELL WATSON *with* JOHN BARRY, THOMAS M. DEFRANK, MARGARET GARRARD WARNER *and* KIM WILLENSON *in Washington*

An End Run Around the Law?

The uproar over Ronald Reagan's Iranian misadventure has damaged the president's credibility—and one reason is that the administration, at the very least, circumvented some laws. In the days ahead, these end runs are certain to become an issue on Capitol Hill. Here is the legal situation:

■ The Arms Export Control Act. The law governs the transfer of U.S. military weapons to any foreign buyer—even when the weapons are actually sold by a third country acting as middleman. The act says all commercial arms sales must be licensed by the State Department, any shipment of more than $14 million must also be cleared by the Department of Defense and the president must notify Congress in advance of any sale of more than $14 million worth of U.S. weaponry. Congress must also be notified of sales totaling more than $14 million of U.S.-supplied weaponry between two foreign powers, such as Israel and Iran.

NEWSWEEK sources say none of the arms shipments to Iran was licensed by the State Department. Though the Iranian arms connection was supervised by ranking civilian officials of the Department of Defense, Pentagon sources say the uniformed brass was kept in the dark. And though arms sales normally require an elaborate certification process that includes the clear designation of the destination, the Iranian shipments were handled differently. U.S. Army records contain no indication that any of the recent weapons shipments were destined for Iran. The CIA and top Pentagon officials used a special five-step procedure that recorded the shipments' destination merely as "Project Recovery." NEWSWEEK sources speculated that those who arranged the Iranian deal were careful to keep the size of individual shipments below the $14 million threshold for congressional notification. But the price of the total package, many in the military now suspect, was at least $50 million and perhaps as much as $100 million—which if true may mean that administration officials sidestepped at least the spirit of the law.

■ The National Security Act. The law requires "timely" notification to Congress of covert operations such as the Iranian weapons deal. The White House, through press spokesman Larry Speakes, insists that Reagan followed all applicable laws, and administration officials say Attorney General Edwin Meese III advised the president that the law did not require congressional notification while the operation was going on.

Congressional leaders such as Sen. Robert Byrd, however, argue that the administration violated the intent of the law in delaying notification to Congress for 11 months—and last week some Democrats were proposing legislation to require notification within 48 hours of any future covert action.